

Asia Market Spotlight

Turning tides in Asia's oil market

Key takeaway

The tides in Asia's oil market are changing. The recent round of crude import quota allocation has initiated the draw on China's crude floating storage inventories as VLCCs waiting offshore receive the green light to offload. Onshore crude inventories, too, have been drawing as refiners supplement feedstock purchases with inventories.

Rising clean products demand in China has triggered a sharp pullback in its exports last month, further exacerbating regional tightness. An uplift in product cracks has seen more clean barrels staying in the region, and ebbing arbitrage flows to West of Suez.

Riding on soaring gasoline cracks, South Korean refiners have ramped up their gasoline exports last month. Strong refining margins present regional exporters opportunities to ramp up their refinery runs this season, that will in turn support recovering dirty tanker freight rates.

This presentation has been compiled
under the guidance of



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OPEC+ crude exports creep up only slowly

OPEC+ crude exports totalled 25.7mbd in October

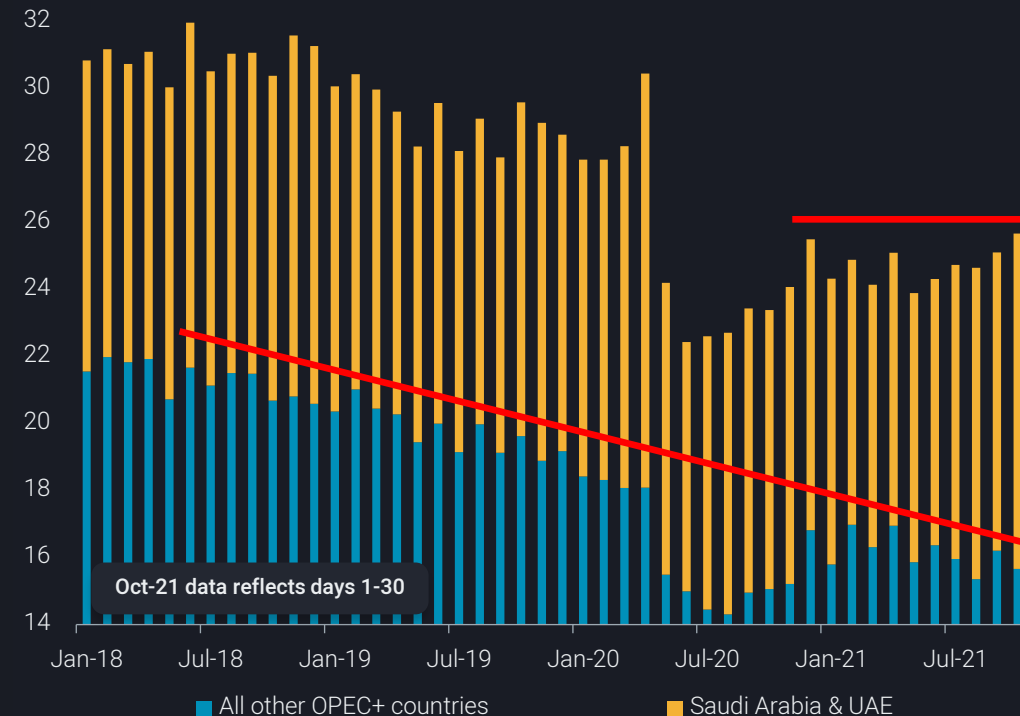
- This is up by close to 0.6mbd vs September
- Relative to the first four months of 2021, the increase is about 1mbd while quotas were hiked by 2.5mbd over the same period

A pretty steady decline in exports from all OPEC+ countries except for Saudi Arabia and the United Arab Emirates is to blame for the limited overall development

Consuming countries, like China, India and the United States, have repeatedly called for OPEC+ to increase production and exports faster in order to help cool prices

- But the question is whether it is really crude oil, especially of medium-sour quality that is currently sought after by market participants

OPEC+ crude exports by origin (mbd)



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China's spot crude imports surge on floating tanker offload

The long-awaited 4th and 5th batches of crude import quotas should allow independent refiners to unload barrels floating offshore

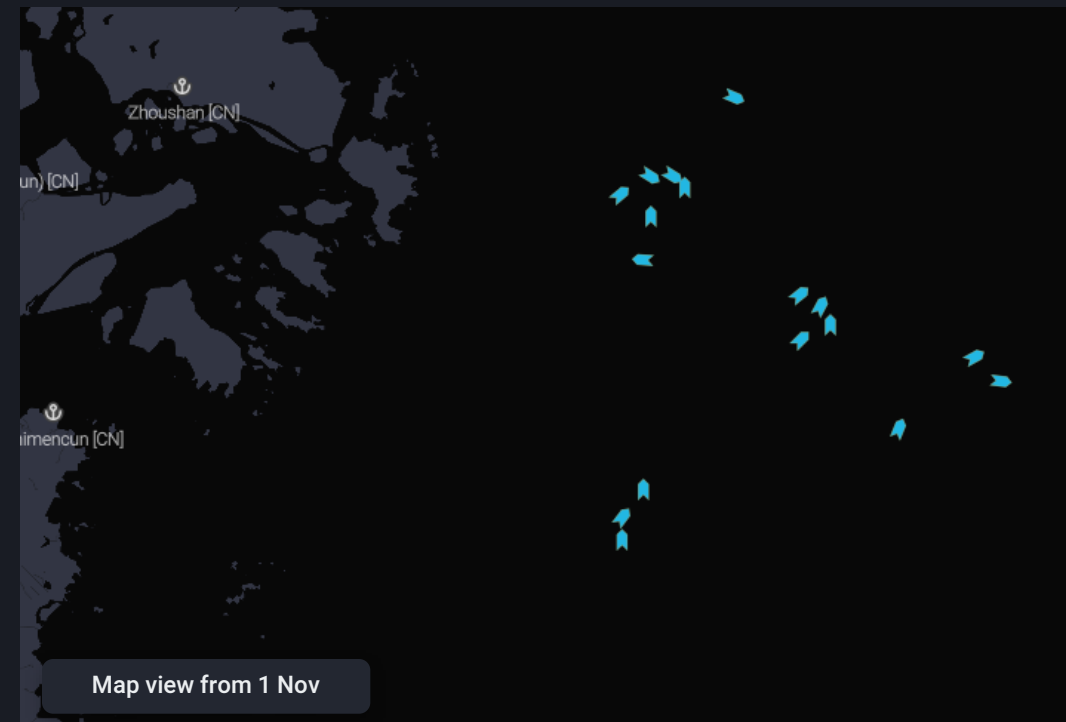
- Shandong refiners booked these middle-distillate-rich grades around August, when their premiums eased to year-to-date lows
- Refiners started utilising the quotas immediately, resulting in [18.5 mb of crude drawn from floating storage in H2 October](#)

China's crude imports from Angola and Brazil [picked up 16% mom to 1.2mbd in Oct](#), despite total seaborne imports easing again

Imports long-haul spot barrels could slow in the coming weeks in lieu of competitive Middle Eastern inflows

- [Middle East crude departures to China picked up 15% mom, led by Saudi and UAE](#), amid deepening discounts of Dubai to Brent
- Besides Oct-loading barrels, 16 VLCCs with Q3-loading Middle Eastern crude are expected to offload in the coming weeks, as ZPC finally got import quotas for its second 400kbd plant
- Shenghong is set to receive [its first cargo of Arab crude](#) via Rizhao port for the start up of the 320kbd plant in November

Crude tankers floating offshore Zhoushan (17 VLCCs as of 1 Nov)



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Chinese refiners draw on onshore crude stocks amid soaring crude prices

Besides floating tankers, Chinese refiners continue to draw crude stock from land storages, resulting in the total stock reduced by near 90mb since June, with about 50mb consumed in the past 2 months

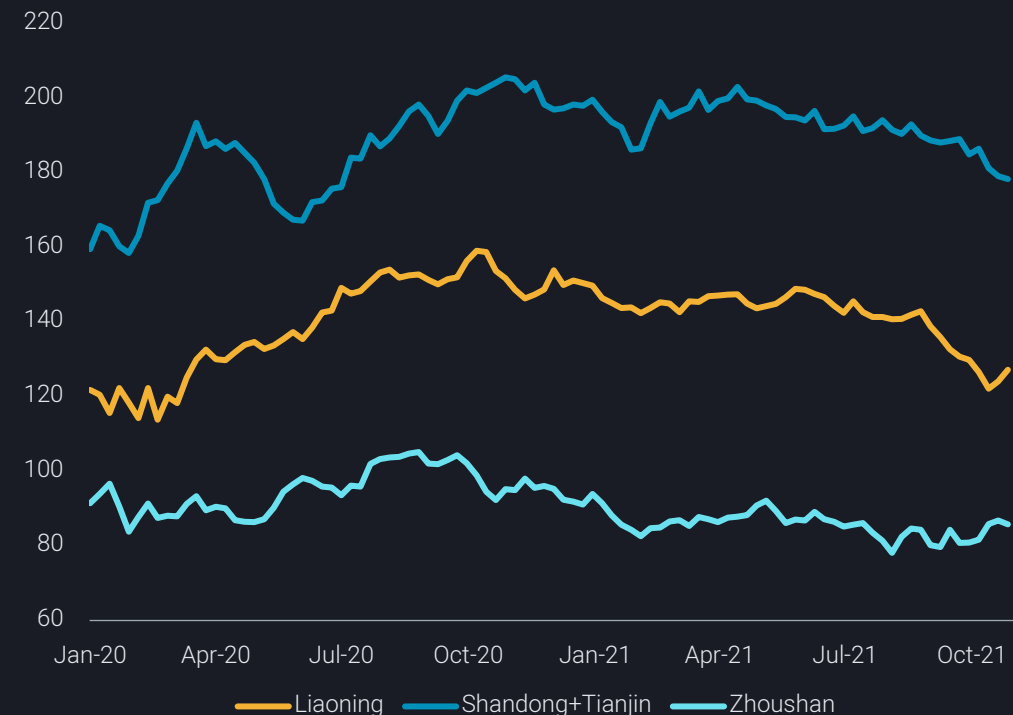
- [Commercial storages have been drawn to a 2-year low at 670mb on Oct 28](#), which is equivalent to 80% of the highest storage level seen in August 2020, when ports were congested by floating cargos as very few tanks were available to rent
- [Utilisation at above-ground SPR sites remains at 94-96% this year](#), with some stock rotations performed by state-run refiners

Commercial storages in northern Liaoning, Shandong and Tianjin, where independent refiners cluster, showed strong declines over recent months, while crude stocks in southeast Zhoushan remained stable

- Crude stocks in Shandong and Tianjin marginally edged up in recent weeks as refiners accelerated to offload floating tankers

With oil prices remaining elevated, refiners are likely to only buy sufficient volumes to maintain their refining runs, and not likely to refill the inventories they drew this year

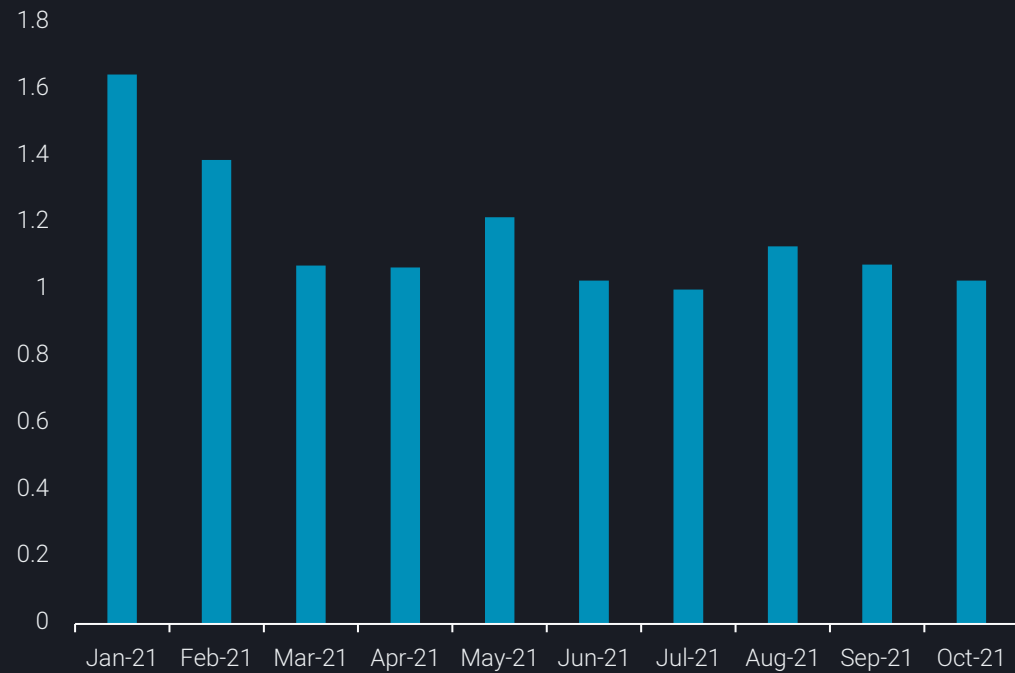
China commercial crude stock at selected locations (mb)



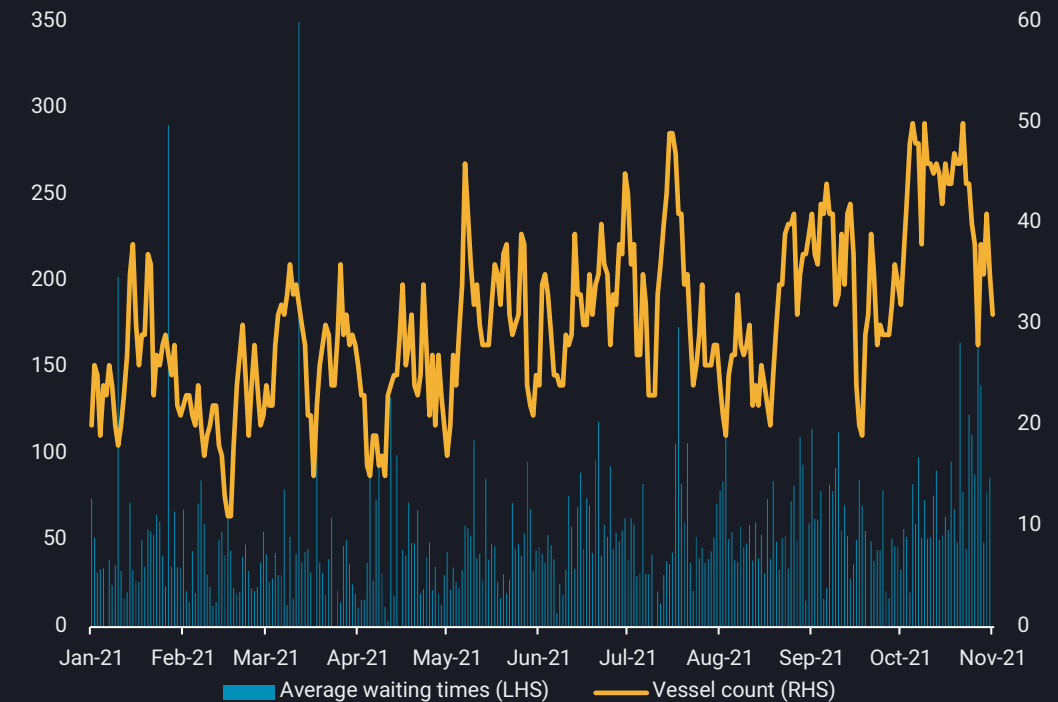
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Longer waiting time at Dalian port set to ease

Dalian port cargo discharge volume (mbd)



Dalian port average waiting times (hr) and vessel count



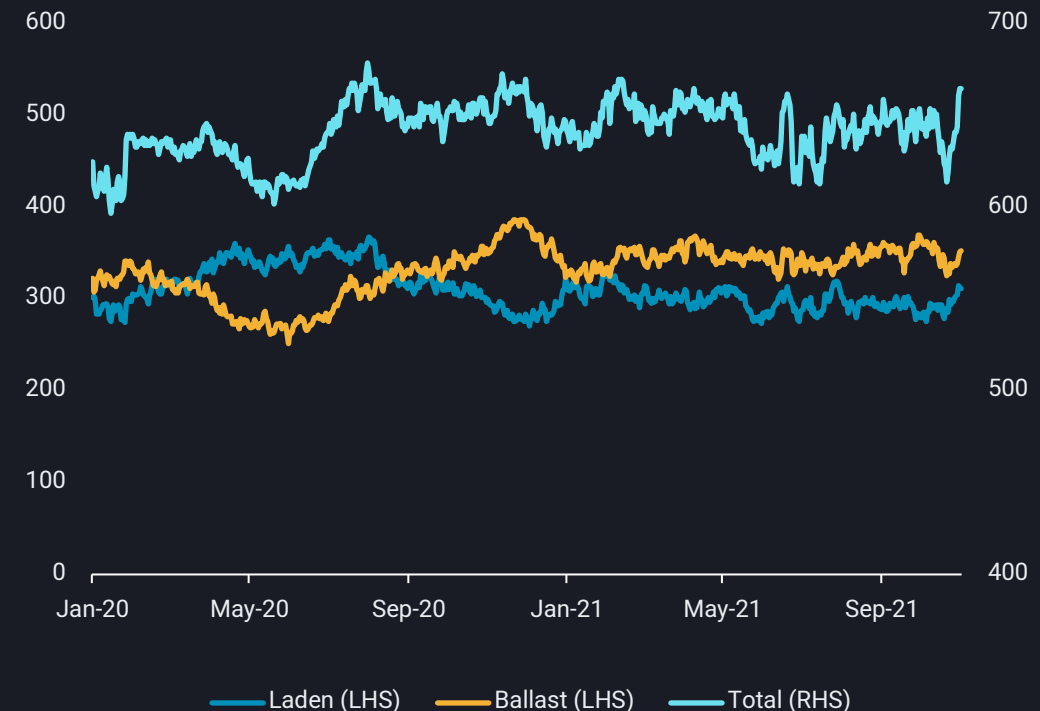
VLCC count East of Suez rises to 2-year high

The total number of VLCCs currently located East of Suez, including both laden and ballast, rose close to a 2-year high according to Vortexa fleet distribution data

- We have witnessed higher volumes of crude out of the Middle East, specifically Saudi Arabia and the UAE
- This has increased demand for those vessels and driven several of them to the region in search of employment

Looking ahead, a continued increase in crude exports from the Middle East, and import requirements from Asia amid rising demand and refining margins should maintain the momentum for both vessel availability and freight rates

VLCC count East of Suez (number)



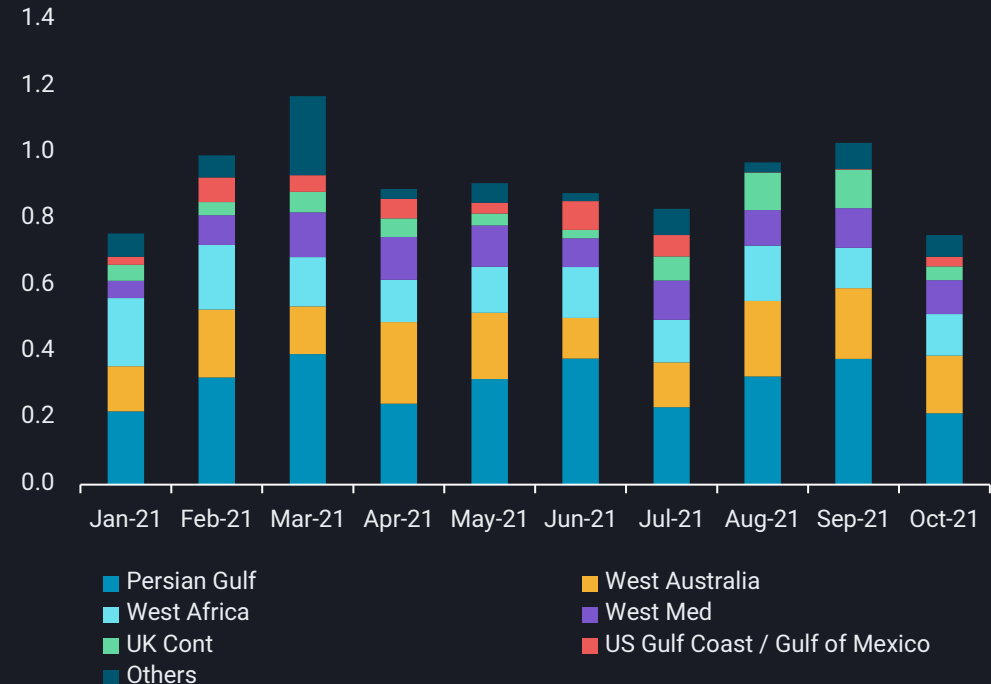
Lower global condensate exports fuel light-ends tightness

A global naphtha supply shortage have motivated refiners, particularly in Asia, to process more condensates to bolster their naphtha supplies

- Condensate loadings to Asia have climbed for three consecutive months to 500kbd in September
- But lower condensate supplies, particularly from Australia have seen imports into Asia cooling to 440kbd in October
- Besides Qatari condensates, the economics for Asian refiners to import condensates from producers in the west are still not appealing enough to drive an uptick in imports by Asian refiners

The lack of condensates will likely stimulate more demand for light-sweet crudes, as the chase for naphtha supplies continues

Global condensate loadings (mbd)



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South Korea doubles down on soaring gasoline cracks

Riding on the region's soaring gasoline cracks, South Korean refiners ramped up gasoline exports to multi-year high last month

- South Korea's exports to rise by a third mom in October whilst China and India's exports see declines

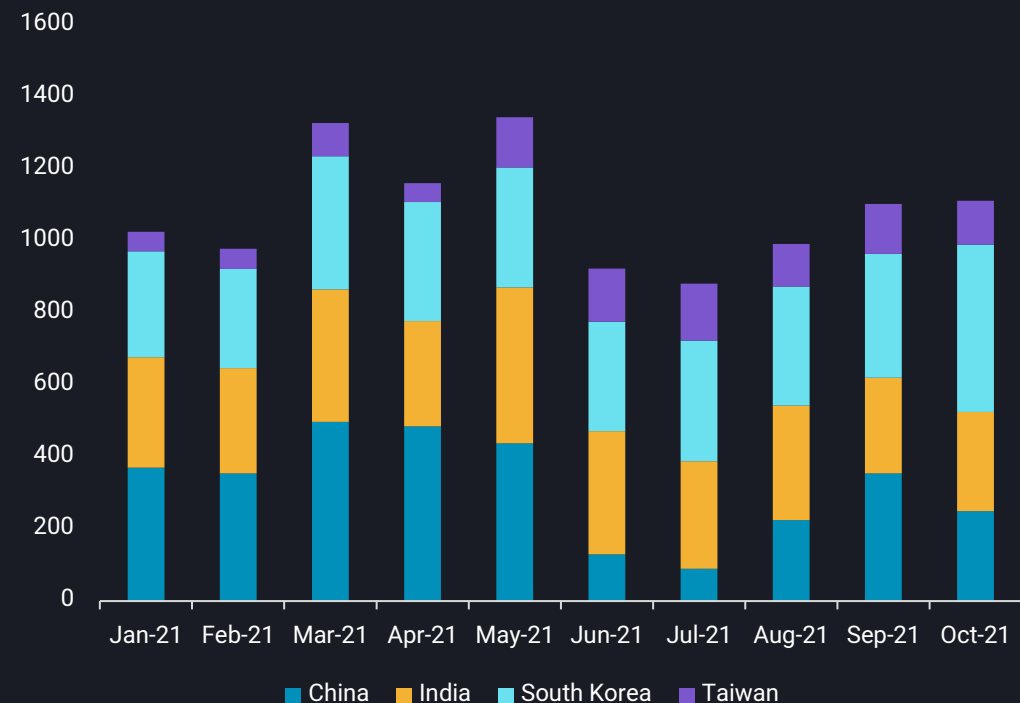
Southeast Asia's gasoline imports, a proxy to the region's demand, saw an uptick last month versus September, fueled by increased mobility

- Indonesia's gasoline imports are up 10% mom, but still below average volumes in the first eight months of the year
- Similarly, Philippines' imports have jump by 50% mom, but remain below average year-to-date volumes
- Although countries are gradually re-opening, demand recovery within the region remains fragile

Light distillate inventories in Singapore have shown an uptick in the last two weeks, after reaching a year-to-date low in mid October, according to Enterprise Singapore statistics

Gasoline cracks could see some cooling, as strong export levels including from the Middle East and even Europe hit markets

Asia gasoline exports by key countries (kbd)



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Asia's diesel cracks cool as arbitrage exports fall

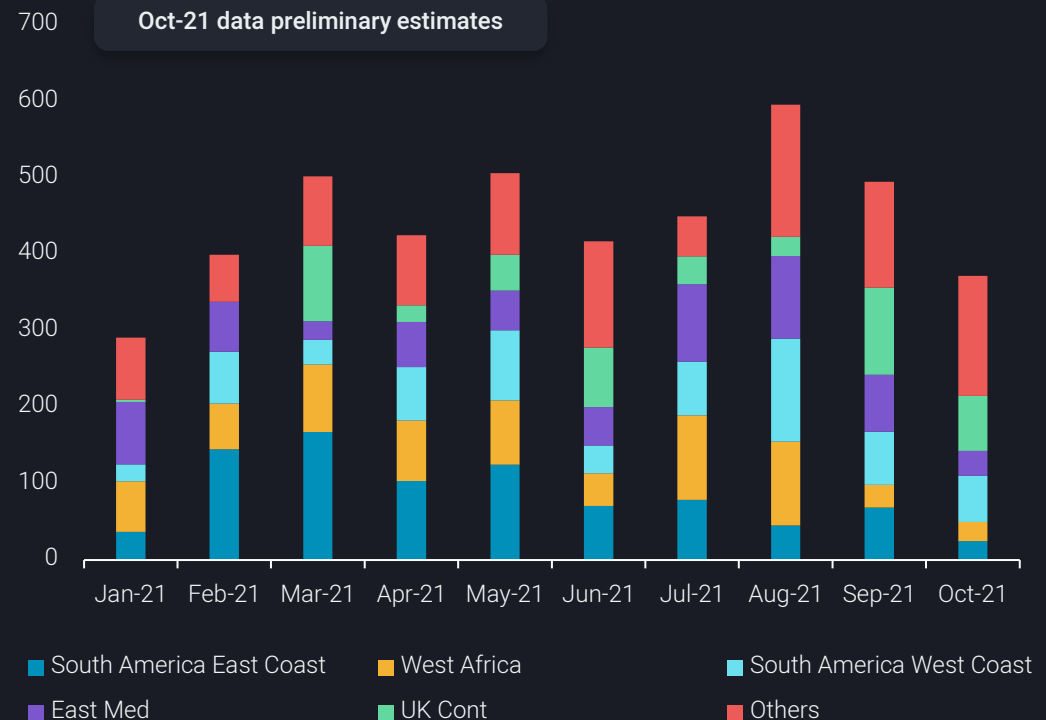
Fewer Asian diesel cargoes are heading to West of Suez (WoS) markets as the East-West arbitrage narrows and Europe's diesel market entered steep backwardation in October

- Around 370kbd of diesel cargoes are sailing from Asia to WoS last month, down 25% from volumes seen in September
- More vessels currently without destination declarations could be heading west in the next few days, but we expect the final October arbitrage volumes to remain below September's

Instead, more Indian diesel cargoes have headed to Southeast Asia and Bangladesh in October, [reaching a five-month high of 105kbd](#)

With China's drastic diesel exports pullback likely extending into November (see next slide), regional exporters from India, South Korea and Taiwan will have opportunities to step up their exports to keep the region supplied – at attractive prices

Asia diesel exports to West of Suez (kbd)



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China cuts diesel exports amid booming domestic demand and limited quotas

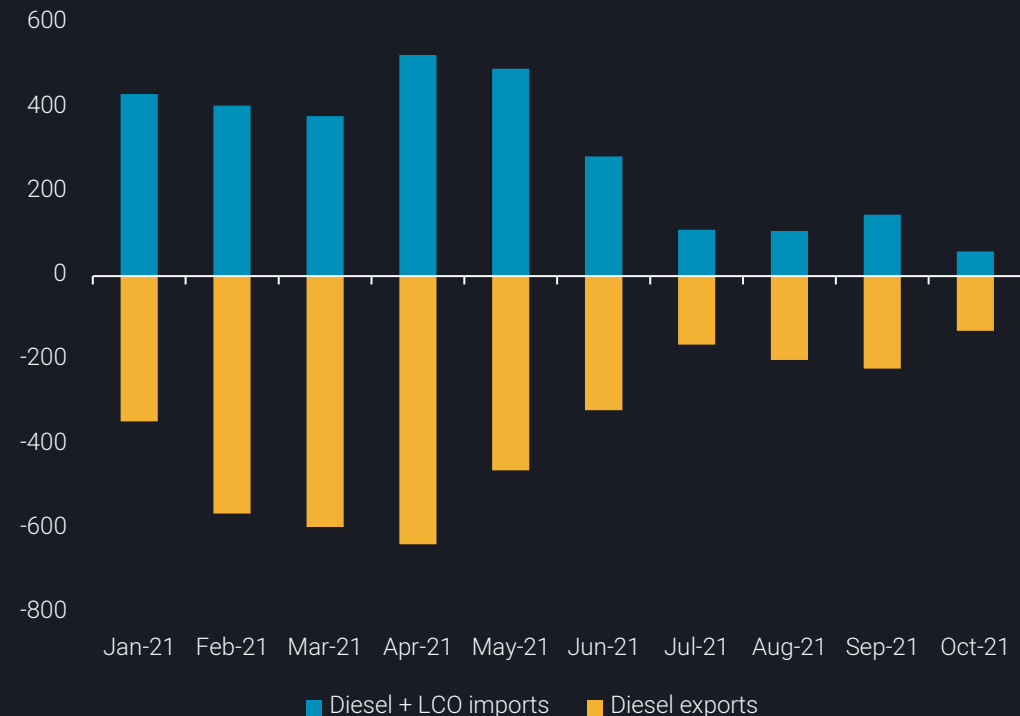
China has cut diesel/gasoil exports to 130kbd in October, the lowest since June 2020, as domestic demand booms and product export quotas remain tight

- Back-up power generation needs from recent power rationing in multiple provinces, together with seasonal fishing and construction requirements support domestic diesel demand
- Sinopec and PetroChina are reportedly planning to boost diesel production in November and halt exports

Domestic diesel wholesale prices are soaring since September and hit a 3-year high in October, stimulating diesel and light cycle oil (LCO) imports into China

- LCO imports, favoured by Chinese diesel/gasoil blenders, plunged after consumption tax on imports took effect in June
- LCO imports resumed in September, as firming domestic margins outweighed import taxes
- State-run refiners may purchase more diesel cargos in November to ease the supply crunch

China diesel exports vs. diesel/LCO imports (kbd)



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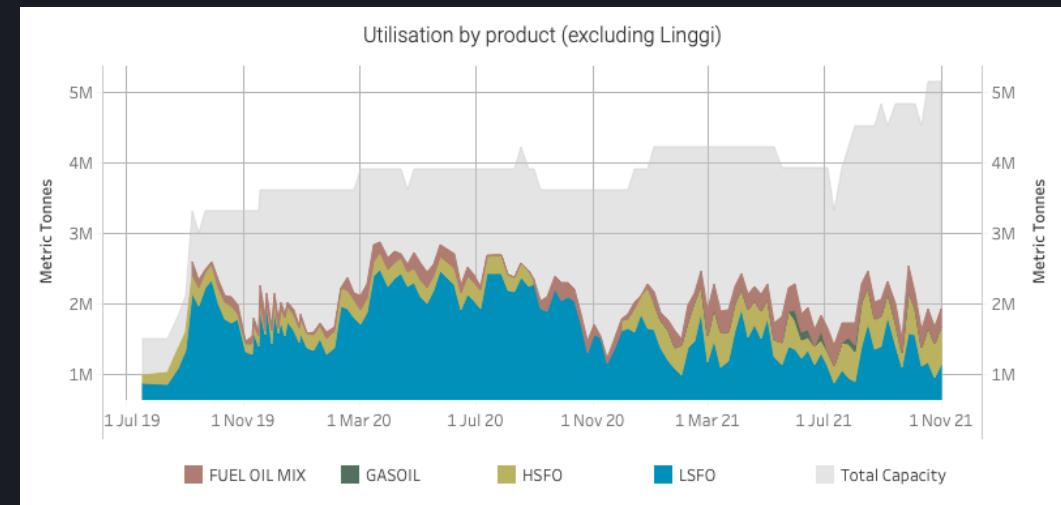
Singapore fuel oil floating storage highlights

Overall fuel oil inventory stands at 1.93mt (million tonnes), indicating a 254kt increase wow

Inventory changes are up:

- LSFO inventory is 1.13mt, up by 183kt wow, a 19.3% increase
- HSFO inventory is 537kt, up by 58kt wow, a 12.1% increase
- Fuel oil mix inventory is 263kt, up by 13kt wow, a 5.2% increase
- Gasoil inventory is unchanged at nil

Utilisation by product (excluding Linggi)



Singapore floating storage inventory (excluding Linggi)

Vessel	Product	Charterer	Capacity (mt)	Inventory (mt)	Prev. wk (mt)	Change (mt)	Fill %
AQUARIUS STAR	LSFO	Mitsui	298,641	184,000	122,000	62,000	62%
BRILLIANT JEWEL	LSFO	Vitol	305,178	190,000	63,000	127,000	62%
CRYSTAL STAR	LSFO	Repsol	298,570	0	29,000	-29,000	0%
CS BRILLIANCE	HSFO	Gunvor	300,058	115,000	128,000	-13,000	38%
CS DEVELOPMENT	HSFO		300,955	286,000	286,000	0	95%
CS INNOVATION	FUEL OIL MIX	PetroChina	299,885	26,000	0	26,000	9%
CS PROSPERITY	LSFO	Mercuria	311,224	0	0	0	0%
EAGLE VERONA	LSFO		320,122	304,000	304,000	0	95%
EM LONGEVITY	GASOIL	Vitol	306,324	0	0	0	0%
EM SPLENDOUR	LSFO	Phillips 66	281,705	125,000	164,000	-39,000	44%
GRACE STAR	LSFO	BP/ Sinopec	312,638	87,000	79,000	8,000	28%
MY WAY	LSFO		314,020	0	0	0	0%
NAVE CONSTELLATION	LSFO		296,988	65,000	101,000	-36,000	22%
NEW GLOBAL	FUEL OIL MIX	New Ocean/ Alvari	305,704	0	0	0	0%
	HSFO	New Ocean/ Alvari	305,704	136,000	65,000	71,000	44%
PIS PIONEER	LSFO		299,988	0	0	0	0%
SA EQUATORIAL	LSFO	Shell	299,999	0	0	0	0%
	FUEL OIL MIX	Shell	299,999	237,000	250,000	-13,000	79%
SEA HORIZON	LSFO	Mitsui	298,412	174,000	84,000	90,000	58%
Total:			5,150,411	1,929,000	1,675,000	254,000	37%

Inbound cargo movements

Receiving FSO	From Vessel	Origin Country	Origin Port	Loaded on	Grade	Quantity
AQUARIUS STAR	KIRANA NAWA	Indonesia	Pladju, Sumatra [ID]	27/10/2021	Low Sulphur Slurry	11,351
BRILLIANT JEWEL	DA CHUAN T150-5	United Arab Emirates	Fujairah [AE]	29/10/2021		101,211
CS INNOVATION	AFRAMAX RIO	Sudan	Marsa Bashayer [SD]	25/10/2021	Dar Blend	96,851
NAVE CONSTELLATION	SHAN CHI	China	Qinhuangdao Oil Terminal [CN]	26/10/2021	Qinghuangdao	46,302
NEW GLOBAL	S PUMA			25/10/2021		39,602
SEA HORIZON	URAGA PRINCESS	Australia	Barrow Island, WA [AU]	30/10/2021	Barrow Island	78,556
		Brazil	Angra dos Reis [BR]	30/10/2021		6,924
			Madre de Deus [BR]	30/10/2021		6,924

Bangladesh's fuel oil imports surge in October

Bangladesh's high sulphur fuel oil (HSFO) imports registered a sharp uptick in October, on robust demand from power generation

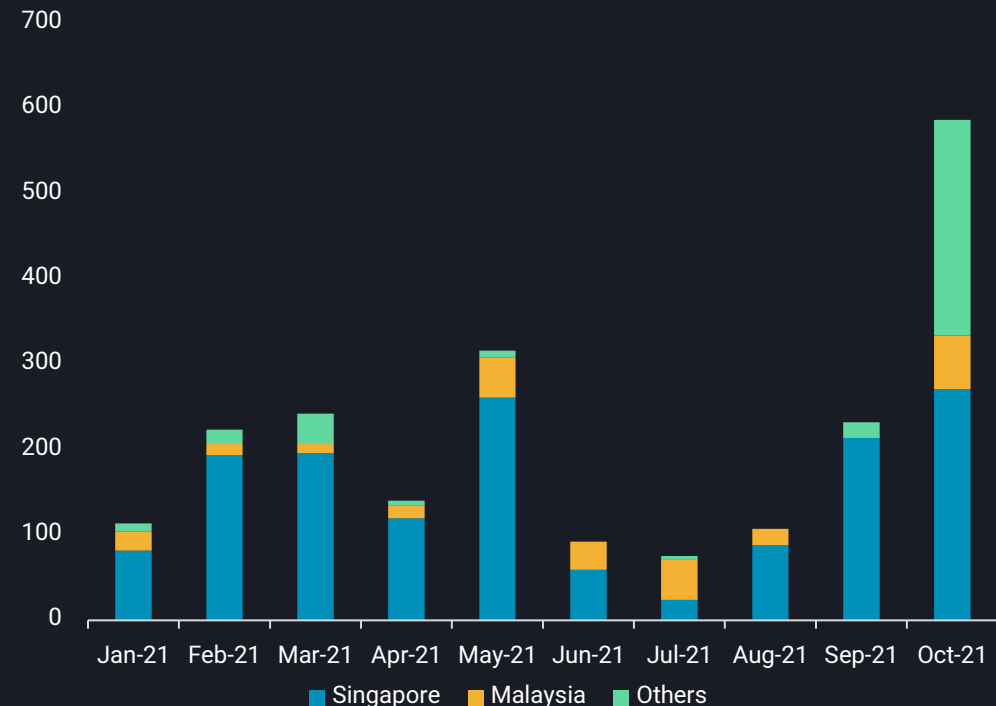
- October's arrivals registered a multi-year high of 590kt
- HSFO's wide discount against stubbornly high LNG prices continue to boost its appeal as the favoured power utility feedstock

Asia's HSFO prices have cooled in recent weeks as summer heating demand from Mideast Gulf and Pakistan falls

Low sulphur fuel oil (LSFO) prices, on the contrary, have remained robust, potentially on a combination of demand and supply factors

- Power generation needs from countries with stricter sulphur regulations
- Less refining supplies due to a mix of rising sour supplies and steep desulphurisation costs

Bangladesh fuel oil imports (kt)



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